IOI Corp (IOI MK)

2QFY26 Results Preview: Higher Output To Mitigate Lower ASPs

HOLD (Maintained)	
Share Price	RM4.07
Target Price	RM4.30
Upside	5.7%

Analyst(s)
Lester Siew
lestersiew@uobkayhian.com
+603 2147 1990

Highlights

- IOI is expected to reported higher qoq 2QFY26 earnings despite lower ASPs, buffered by higher sequential sales volume in tandem with increased output.
- FFB production growth is well on track to achieve management's FY26 target of 5-10%, with 1HFY26 output tracking ahead at +12% yoy.
- Maintain HOLD with an unchanged SOTP-derived target price of RM4.30.

Analysis

- **2QFY26 results preview.** IOI Corp (IOI) is expected to announce its 2QFY26 results on 24 Feb 26. We project a sequentially higher core net profit of RM390m-415m (+7-14% qoq), vs 1QFY26 core profit of RM386m. The key earnings driver for the quarter is its upstream segment, as FFB production rose 12% qoq while CPO output increased by 16% qoq, whose corresponding increase in sales volume should more than offset a 5% qoq decline in spot CPO prices.
- **Strong 1HFY26 production growth.** IOI's production appears to have peaked in Oct 25 (+13.5% mom), as FFB output in Nov-Dec 25 began to soften by 7.6% and 6.4% mom respectively in tandem with the industry's usual seasonal slowdown. Nonetheless, the group's 2QFY26 production performance has been exceptional on a yoy basis, having risen by 11.6% which suggests that its estates' FFB yields are at its highest since pre-COVID-19 years. This is also likely attributable to increased harvested mature hectarage, as management previously guided that a substantial portion of its replanted landbank and maturing young palms would provide incremental contribution progressively over the course of FY26.
- **Downstream segment.** IOI's downstream segment is expected to see comparable operating profit sequentially in 2QFY26, with 1QFY26's results previously seeing a broad-based recovery across all sub-segments. Although processing margins may remain pressured by industry competition, this should be buffered by higher downstream sales volume given its upstream segment's higher output. We expect its oleochemical sub-segment to perform relatively better, with product margins having improved vs previous quarters while management has also flagged the acquisition of new customers recently.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	9,604	11,335	11,146	11,349	11,459
EBITDA	1,537	1,837	1,914	1,997	2,067
Operating profit	1,140	1,432	1,482	1,549	1,608
Net profit (rep./act.)	1,088	1,521	1,472	1,692	1,827
Net profit (adj.)	1,088	1,320	1,472	1,692	1,827
EPS (sen)	17.3	21.0	21.6	23.1	24.1
PE (x)	21.5	18.8	18.3	17.1	16.4
P/B (x)	2.0	2.0	1.9	1.8	1.7
EV/EBITDA (x)	24.6	14.6	14.1	13.3	12.6
Dividend yield (%)	2.6	2.7	2.8	3.0	3.2
Net margin (%)	11.3	13.4	12.2	12.8	13.2
Net debt/(cash) to equity (%)	13	13.3	13.3	9.7	6.0
Interest cover (x)	13	17.1	18.4	19.7	23.2
ROE (%)	9.5	14.2	12.3	12.7	12.9
Consensus net profit	-	-	1,402	1,554	1,782
UOBKH/Consensus (x)	-	-	1.05	1.06	1.04

Source: Company, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	IOI MK
Shares issued (m):	6,285.2
Market cap (RMm):	24,890.5
Market cap (US$m):	5,962.7
3-mth avg daily t'over (US$m):	2.2

Price Performance (%)

52-week high/low: RM5.32/RM4.42

1mth	3mth	6mth	1yr	YTD
1.3	3.4	8.5	5.3	2.3

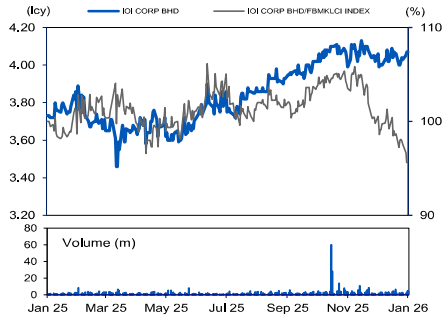
Major Shareholders

Lee Shin Cheng Family	49.8%
Employees Provident Fund	18.1%

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	1.96
FY26 Net Debt/Share (RM)	0.26

Price Chart



Source: Bloomberg

Company Description

Integrated palm oil player.

- **2HFY26 outlook.** Moving into 2HFY26, we expect IOI's upstream division to continue performing well, bolstered by its plantation estates' good production momentum. Production growth is likely to remain strong yoy in 3QFY26, partly due to 3QFY25's low base as FFB output was poor during Jan-Feb 25. However, we believe 3QFY26's results may be affected by a reduction in Malaysia's CPO export duty from 10% to 9.5% in Jan 26 and 9.0% for Feb 26, which is likely affect its downstream segment's refining margins given the reduced feedstock price competitiveness vs Indonesia's refiners. On the other hand, we expect the reduction in CPO export duty rates to be temporary, as spot CPO prices have since climbed back up above RM4,050/tonne and would likely induce duty rates to be revised back to 10% from Mar 26 onwards.

Valuation/Recommendation

- **Maintain HOLD with unchanged RM4.30 target price.** We recently downgraded our call from BUY to HOLD after reducing our target price from RM4.50, in accordance with our lowered CPO price expectations. Our SOTP valuation parameters otherwise remain unchanged, save for a minor revision in our fair value estimate of S$1.45/share (from S$1.40) for its Bumitama associate – at 17x FY25F PE for the plantation division, 15x FY25F PE for the resources-based manufacturing (downstream) division and 18x for the contribution from associate Loders. Upside risks to our HOLD call include a sustained improvement in downstream segment profitability whereas downside risks include weaker-than-expected FFB output.

Earnings Revision/Risk

- **FY26-27 estimates unchanged.** For FY26, we forecast a 12% yoy rise in core earnings based on our latest CPO price forecast of RM4,250/tonne and FFB growth of 6% for the year. For FY26, we expect contribution from its downstream segment to recover back towards FY24's profitability levels.

Share Price Catalyst

- Better-than-expected CPO prices and production growth.
- Accelerated development of new business verticals.
- Potential M&A activities.

Environmental, Social, Governance (ESG)

Environmental

- SDG announced that additional biogas plants would be built in Kedah and Negeri Sembilan. This allows it to work towards its carbon reduction target of 40% by 2030 (current: 18%).

Social

- The US Customs and Border Protection says palm oil produced by SDG is no longer "being mined, produced, or manufactured wholly or in part with the use of convict, forced, or indentured labour".

Governance

- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

Key Assumptions

	FY26F
FFB production growth	6.1% yoy
CPO Prices	RM4,250/tonne
Downstream Margin	1.5%

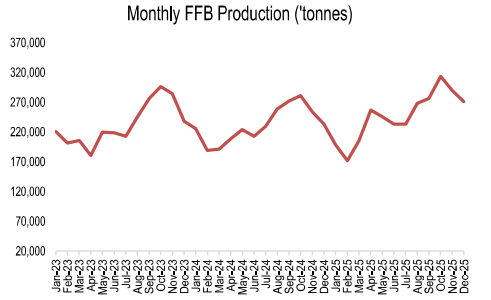
Source: UOB Kay Hian

SOTP Valuation

	PE (x)	RM/share
Plantations	17	3.34
Manufacturing	15	0.27
Stake in Bumitama (Fair value: S$1.45/share)	-	0.42
Contribution from Loders	18	0.50
Less: Net Debt		(0.26)
IOI's fair value (round-off)		**4.30**

Source: IOI Corporation, UOBKH

Monthly FFB Production Growth



Source: IOI Corporation

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	**11,335**	**11,146**	**11,349**	**11,459**
EBITDA	1,837	1,914	1,997	2,067
Deprec. & amort.	405	431	448	459
EBIT	1,432	1,482	1,549	1,608
Total other non-operating income	0	0	0	0
Associate contributions	351	373	406	424
Net interest income/(expense)	(107)	(104)	(101)	(89)
Pre-tax profit	**1,878**	**1,858**	**2,123**	**2,307**
Tax	(341)	(343)	(354)	(381)
Minorities	(16)	(14)	(15)	(15)
Net profit	**1,521**	**1,472**	**1,692**	**1,827**
Net profit (adj.)	**1,320**	**1,472**	**1,692**	**1,827**

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	9,532	9,814	10,083	10,328
Other LT assets	3,184	3,215	3,247	3,279
Cash/ST investment	1,452	1,336	1,291	1,788
Other current assets	125	125	125	125
Total assets	**17,792**	**18,126**	**18,518**	**19,239**
ST debt	709	709	709	709
Other current liabilities	260	260	260	260
LT debt	2,807	2,618	2,430	2,098
Other LT liabilities	1,206	1,056	906	906
Shareholders' equity	11,582	12,202	12,879	13,641
Minority interest	344	358	372	382
Total liabilities & equity	**17,792**	**18,126**	**18,518**	**19,239**

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	**944**	**1,366**	**1,702**	**1,800**
Pre-tax profit	1,878	1,858	2,123	2,307
Tax	(341)	(343)	(354)	(381)
Deprec. & amort.	405	431	448	459
Working capital changes	(275)	(270)	(41)	(22)
Other operating cashflows	(722)	(165)	(167)	(162)
Investing	**-537**	**-536**	**-536**	**-536**
Capex (maintenance)	(700)	(900)	(700)	(700)
Investments	0	0	0	0
Proceeds from sale of assets	2	3	3	3
Others	162	162	162	162
Financing	**(864)**	**(909)**	**(956)**	**(988)**
Dividend payments	(660)	(706)	(753)	(785)
Issue of shares	0	0	0	0
Proceeds from borrowings	3	4	4	4
Loan repayment	(193)	(193)	(193)	(193)
Others/interest paid	(14)	(14)	(14)	(14)
Net cash inflow (outflow)	**(456)**	**(278)**	**211**	**277**
Beginning cash & cash equivalent	**2,182**	**1,578**	**1,300**	**1,511**
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	**1,725**	**1,300**	**1,511**	**1,788**

Key Metrics

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	17.3	16.3	16.5	16.5
Pre-tax margin	16.1	15.6	16.3	16.3
Net margin	12.1	11.7	12.3	12.3
ROA	7.6	7.6	8.2	8.2
ROE	12.6	12.4	13.1	13.1
Growth				
Turnover	12.2	4.4	4.3	4.3
EBITDA	21.1	-1.6	5.4	5.4
Pre-tax profit	24.2	-4.2	9.3	6.0
Net profit	17.8	-4.8	8.3	6.4
Net profit (adj.)	17.8	5.0	8.3	6.4
EPS	17.8	5.0	8.3	6.4
Leverage				
Debt to total capital	29.5	26.5	23.7	23.7
Debt to equity	30.3	27.3	24.4	24.4
Net debt/(cash) to equity	17.8	16.3	14.3	14.3
Interest cover (x)	12.2	12.9	14.8	14.8

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